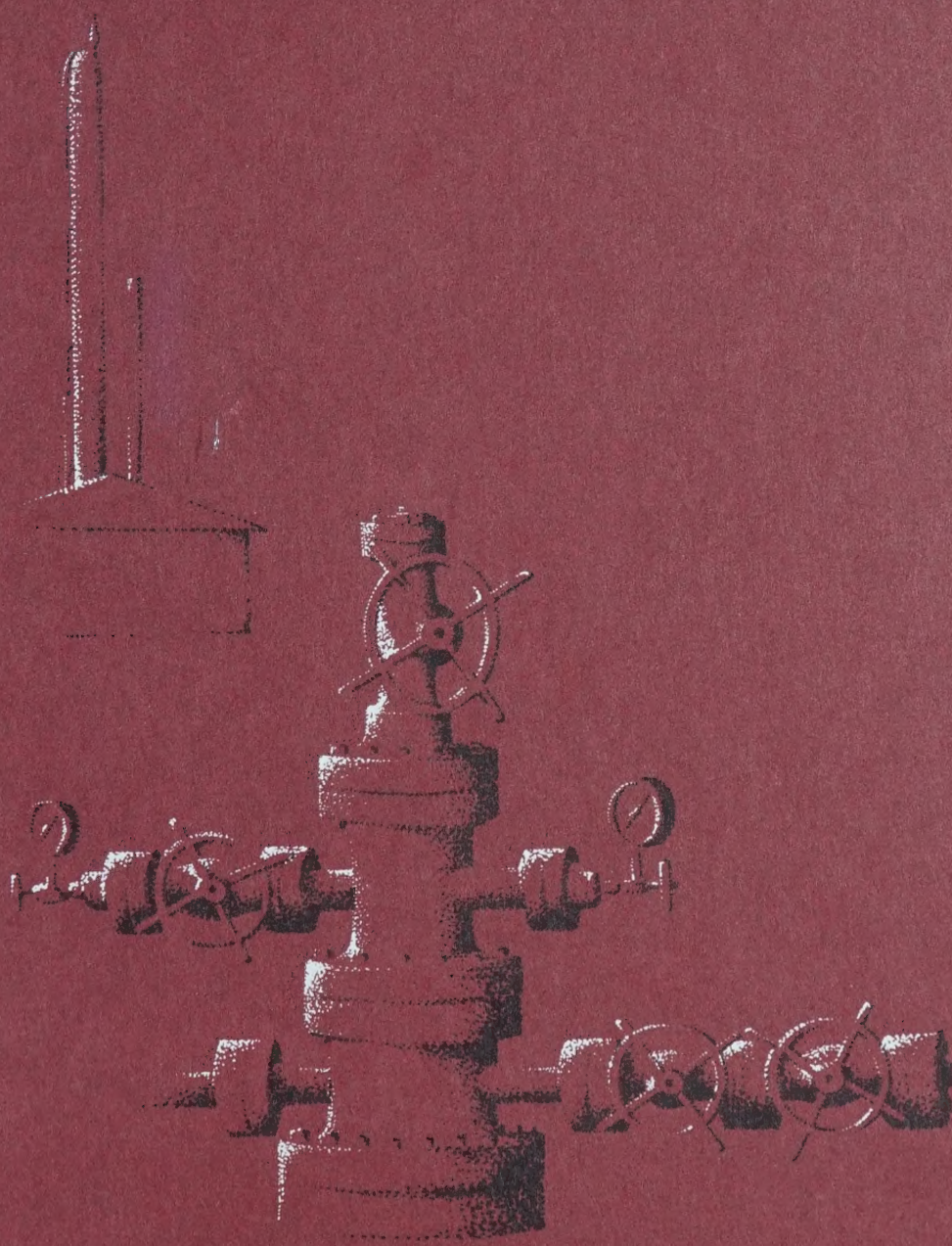


PROVO GAS PRODUCERS LIMITED

Annual Report 1961





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Annual Report 1961

PROVO

GAS PRODUCERS LIMITED

HEAD OFFICE:

706 - Seventh Avenue S.W., Calgary, Alberta

DIRECTORS:

D. R. ANNETT	Toronto, Ontario
D. C. COLLIN	Calgary, Alberta
B. H. COREY	Calgary, Alberta
C. S. DUNKLEY	Calgary, Alberta
J. P. GALLAGHER	Calgary, Alberta
G. R. GARDINER	Toronto, Ontario
W. V. MACINNES	Toronto, Ontario
C. W. MICHEL	New York, N.Y.
D. M. WOLCOTT	Calgary, Alberta

OFFICERS:

J. P. GALLAGHER	<i>President</i>
D. M. WOLCOTT	<i>Vice-President</i>
W. E. RICHARDS	<i>Secretary</i>
H. T. ASTLE	<i>Treasurer</i>

REGISTRAR AND TRANSFER AGENT:

NATIONAL TRUST COMPANY LIMITED
Calgary, Toronto, Montreal

AUDITORS:

CLARKSON, GORDON & Co.
Calgary, Alberta

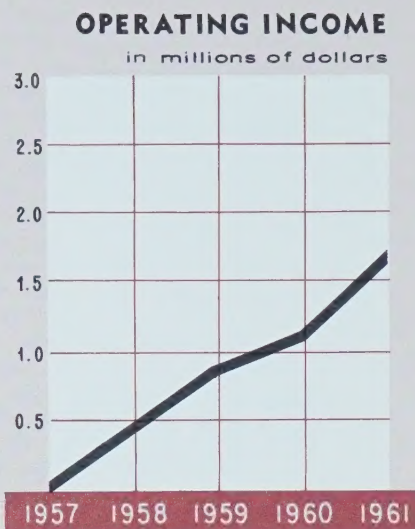
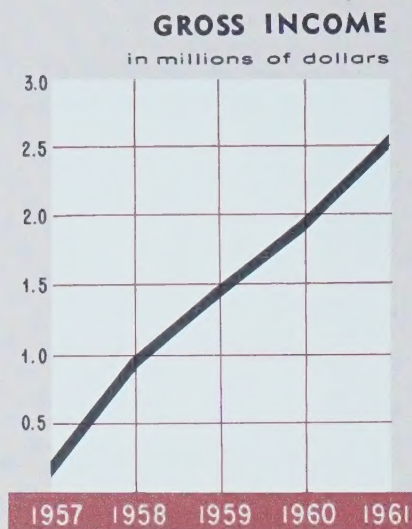
LEGAL COUNSEL:

WILLIAMSON AND THOMSON
Calgary, Alberta

STOCK LISTED:

TORONTO STOCK EXCHANGE
CANADIAN STOCK EXCHANGE

FINANCIAL TRENDS



HIGHLIGHTS

	1961	1960
FINANCIAL		
Gross Income (before royalties)	\$2,555,540	\$1,904,320
Operating Income	1,673,614	1,128,702
Expenditures on Development	791,133	531,840
Expenditures on Exploration	109,145	140,934
Net Income	591,513	281,893
Working Capital	1,323,690	1,451,960
PRODUCTION		
Gas Sales (billion cubic feet)	16.33	12.41
Oil & Condensate Production (net barrels)	294,813	162,496
RESERVES		
Proven Gas Reserves (billion cubic feet)	575	586
Proven Oil & Condensate Reserves (net barrels)	4,600,000	3,355,000
Net Gas Wells	49.1	44.3
Net Oil Wells	46.1	26.8
ACREAGE HOLDINGS		
Gross	3,043,980	1,228,284
Net	988,273	464,775

Report of the Directors

TO THE SHAREHOLDERS:

In 1961, your Company recorded an operating income, after all producing and administrative costs, of \$1,673,614 compared with \$1,128,702 in the previous year. This resulted in a net profit, after all charges, of \$589,124 for a 109% increase over that of 1960.

Gas production during the year increased 32% to an average of 44.7 million cubic feet per day. Oil and condensate production increased 81% to an average of 808 barrels per day.

During 1961 and the first quarter of 1962, Provo participated in 3 oil discoveries in Alberta and 2 gas discoveries in northeastern British Columbia.

These and other developments are reviewed in detail in the following report.

PRODUCTION

Provo's share of gas sales from the Provost Unit increased to 16.33 billion cubic feet from 12.4 billion cubic feet in 1960. This is an average of 44.7 million cubic feet per day in 1961 and 34.0 million cubic feet per day in the previous year. Provo's sales in the first quarter of 1962 averaged 50.5 million cubic feet per day.

Net oil and condensate production, after all royalties, totalled 294,813 barrels in 1961 compared with 162,496 barrels in the previous year.

At year end, your Company held working interests in 81 gross gas wells, equivalent to 49 net wells, and 137 gross oil wells, equivalent to 46 net wells.

RESERVES

Provo's estimated proven gas reserves at December 31, 1961, were 575 billion cubic feet. All probable reserves are excluded from this figure.

Net proven oil and condensate reserves increased during the year to 4,600,000 barrels at December 31, 1961. Excluded from this figure are all probable reserves and the heavy gravity oil reserves at Hughenden, Alberta.

PROVOST VIKING GAS UNIT

This unit contains 237,440 acres of proven, developed gas rights with estimated recoverable reserves of 601 billion cubic feet. There are 50 gas wells completed in the unit. During 1961, the gathering system was extended in order to meet increased gas deliveries to Trans-Canada Pipe Lines Limited. As of year end a total of 28 unit wells were delivering gas to the gathering system.

Provo owns 78.7% of the unit and is the operator.

EXPLORATION AND DEVELOPMENT

Your Company held varying participations in the drilling of 19 wells during 1961 involving a total footage of 103,259 feet. This program resulted in 5 oil wells, 11 gas wells and 3 dry holes for a net 3.5 wells. Provo's interest in these wells was relatively small and included some net carried interests in wells that were drilled at no cost to the Company.

ALBERTA

Provo participated in drilling 2 exploratory oil wells in Alberta during 1961.

In the Lochend area, Provo holds interests varying from 16 2/3% to 33 1/3% in 15,971 acres of oil and gas rights surrounding a Cardium discovery well. The commercial significance of this discovery can only be determined by further step-out drilling which is planned for 1962.

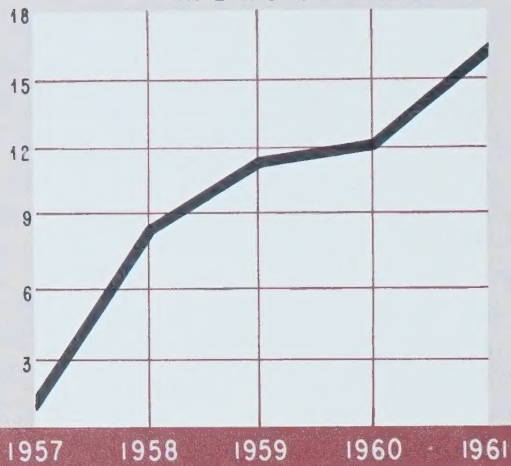
In the Cabin Creek area, Provo holds a small net carried interest in 79,040 lease and reservation acres where a test well flowed at a rate of 240 barrels of light gravity oil per day from a shallow Cretaceous sand.

In early 1962, Provo participated in the drilling of an oil discovery well in the Loon Lake area of northern Alberta where the Company holds a 25% interest

OPERATING TRENDS

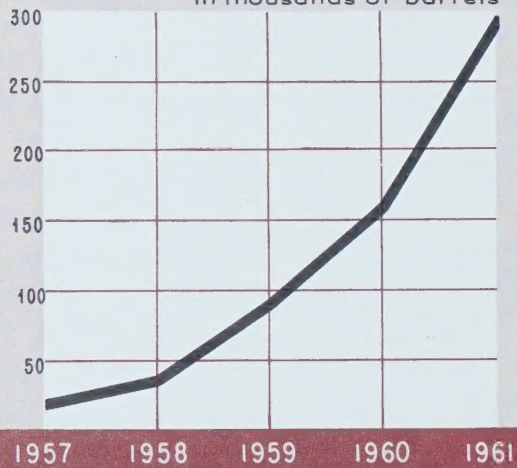
GAS PRODUCTION

in billions of cubic feet



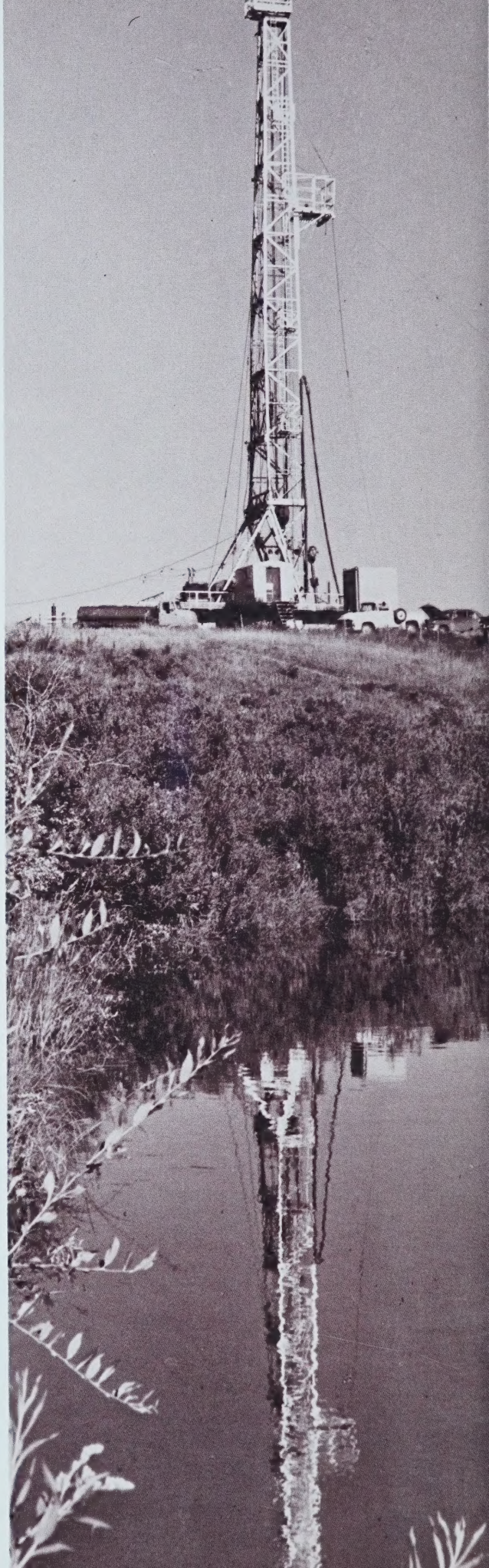
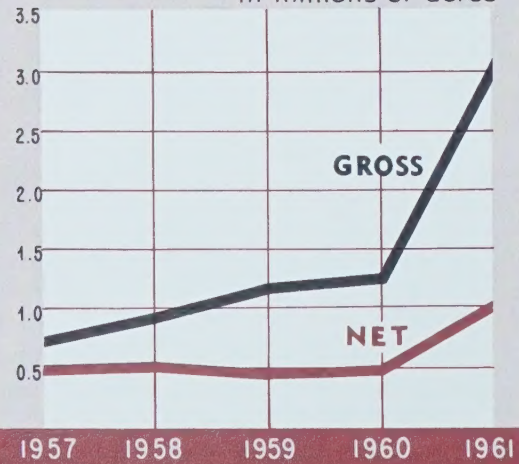
OIL AND CONDENSATE PRODUCTION

in thousands of barrels



LAND HOLDINGS

in millions of acres



in 143,040 reservation acres. This well flowed light gravity oil at a rate of 1,200 barrels per day during a test of the Granite Wash zone, immediately overlying the Precambrian basement. It is planned to conduct geophysical surveys in the vicinity of the discovery well during the coming summer to be followed by step-out and development drilling next winter.

Other drilling on Company properties in Alberta during the year resulted in 3 oil wells and 1 gas well.

The Company contributed a 59% interest in 13 oil wells in the Pembina field to the Pembina Cardium Unit #7 and now holds a 38% interest in this 26 well unit. A combination LPG and gas reinjection program should substantially increase the recoverable oil reserves in this unit.

BRITISH COLUMBIA

During 1961, a total of 12 wells were drilled on the Company's direct and carried interest properties in British Columbia. These resulted in 10 gas wells and 2 dry holes.

A gas discovery well was drilled in the North Beg area on Permit #44 during 1961. In addition, 3 development gas wells were drilled on this 250,000 acre permit in which Provo holds varying interests averaging 21.3%. A further development well has been drilled since year end.

In 1961, a gas discovery well was drilled in the West Laprise area on Permit #187 and 5 development gas wells were also completed on this permit. An additional development well has been completed this year. Provo holds a 25% net carried interest in this permit.

NORTHWEST TERRITORIES (ARCTIC ISLANDS)

The Federal Government issued its Oil and Gas Regulations covering the Arctic Islands area in June, 1961. These regulations make the Arctic Islands a very favourable area in which to explore for oil.

In September, 1961, the first well to be drilled in the Arctic Islands was spudded on Provo interest acreage at Winter Harbour on Melville Island. This well was a co-operative effort supported by 15 different companies. Sufficient work credits are being earned to carry all rental obligations on our 428,786 net permit acres in the Arctic Islands through 1968.

The test was primarily designed to gain subsurface stratigraphic information which will aid immeasurably in planning future geophysical surveys and exploratory drilling. The well was drilled to a total depth of 12,543 feet with no significant shows other than non-commercial indications of hydrocarbon gas in the upper sands.

Provo contributed 10% of the costs of this well for a total direct and carried interest of 13.5%. This venture has proved that drilling operations can be carried out efficiently in the Arctic Islands throughout the year.

LAND

As at December 31, 1961, your Company held interests in 3,043,980 acres of petroleum and/or natural gas rights in Western Canada and the Northwest Territories equivalent to 988,273 net acres. The following table indicates the distribution of these properties and their location is shown on the map at the back of this report.

	Gross Acres	Net Acres
Alberta	974,461	435,472
British Columbia	681,725	108,516
Manitoba	15,575	7,011
Northwest Territories (Arctic Islands)	1,355,591	428,786
Saskatchewan	16,628	8,488
1961 Total	3,043,980	988,273
1960 Total	1,228,284	464,775

Drilling on Provo interest acreage in the Crossfield area of central Alberta.



During 1961, a gas licence and leases totalling 42,761 acres were acquired in the Vegreville area (50 miles east of Edmonton). An exploratory well is planned on this acreage during the first half of 1962.

An 11,840 acre gas licence was also acquired in the Hughenden area immediately northwest of the Company's wholly-owned Hughenden oil field. An exploratory well is planned to test this acreage early in 1962.

FINANCIAL

The Company's gross income, before royalties, increased to \$2,555,540 from \$1,904,320 last year. Provo's operating income, after direct operating and administrative expenses, increased to \$1,673,614 this year from \$1,128,702 in 1960.

This year's operations resulted in a net profit of \$589,124 (after all costs including depreciation and depletion) compared with the net profit of \$281,893 in 1960.

At December 31, 1961, the Company's current assets were \$1,855,910 and current liabilities were \$532,220 for a working capital balance of \$1,323,690.

On March 2, 1961, your Company acquired the outstanding shares of Western Naco Petroleum Limited on a share exchange basis involving 181,331 Provo shares.

STEELMAN GAS LIMITED

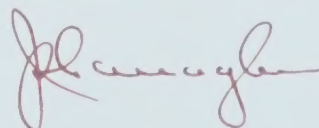
Provo and Dome Petroleum Limited each owns approximately 39% of the outstanding shares of Steelman Gas Limited. Steelman owns and operates facilities for processing flare gas produced from the oil wells in the Steelman Unit of southeastern Saskatchewan.

In the year ended December 31, 1961, the plant throughput totalled 9.08 billion cubic feet, equivalent to an average daily throughput of 24.9 million cubic feet. From this throughput 8.1 billion cubic feet of residue gas was recovered together with 23.5 million Imperial gallons of propane, butane, iso-butane and natural gasoline and 1,691 long tons of sulphur. All plant products were marketed during the year.

During 1962, your Company will continue to expand its activities in the exploration and gas plant phases of the Canadian petroleum industry.

We wish to express our sincere appreciation for the excellent effort and co-operation of our employees.

On behalf of the Board of Directors,



President.

Top: A typical scene in the extension of the Provost Unit gathering system in eastern Alberta.

Bottom: A night view of the process building and towers at the Steelman plant in southeastern Saskatchewan.

April 30, 1962.

Provo Gas Producers Limited and its wholly-owned subsidiaries

Consolidated Balance Sheet *December 31, 1961 and 1960*

ASSETS	1961	1960
CURRENT:		
Cash	\$ 121,631	\$ 134,838
Short term deposits at cost plus accrued interest	1,410,333	1,399,620
Accounts receivable	270,214	310,409
Inventory of casing and supplies at cost	27,653	64,419
Prepaid expenses	26,079	51,535
	<u>\$ 1,855,910</u>	<u>\$ 1,960,821</u>
INVESTMENTS—AT COST:		
Shares of Steelman Gas Limited (quoted market value 1961—\$876,300; 1960—\$559,000)	\$ 1,092,160	\$ 1,075,000
Other	66,035	66,035
	<u>\$ 1,158,195</u>	<u>\$ 1,141,035</u>
PROPERTY, PLANT AND EQUIPMENT—AT COST (Note 1):		
Producing properties (including well development expenditures) less accumulated depletion of \$857,298 (1960—\$545,705)	\$ 7,613,379	\$ 7,115,710
Non-producing properties	1,658,531	1,414,947
Gas plant and gathering system less accumulated depreciation of \$231,695 (1960—\$147,433)	2,440,722	2,292,481
Production and other equipment less accumulated depreciation of \$170,860 (1960—\$99,940)	722,841	444,243
	<u>\$12,435,473</u>	<u>\$11,267,381</u>
OTHER:		
Financing expenses less amounts written off	\$ 84,900	\$ 91,559
Due from officer re purchase of shares	49,104	61,380
Refundable deposits	24,071	12,044
	<u>\$ 158,075</u>	<u>\$ 164,983</u>
	<u>\$15,607,653</u>	<u>\$14,534,220</u>

See accompanying notes.

AUDITORS' REPORT TO THE SHAREHOLDERS OF PROVO GAS PRODUCERS LIMITED.

We have examined the consolidated balance sheet of Provo Gas Producers Limited and its subsidiaries as at December 31, 1961 and the consolidated statements of income and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies, the accompanying con-

LIABILITIES**CURRENT:**

Accounts payable and accrued charges	\$ 113,476	\$ 94,759
Due to affiliated companies	41,494	30,875
Accrued interest on long term debt	77,250	83,227
Serial Bonds due within one year	300,000	300,000
	<u>\$ 532,220</u>	<u>\$ 508,861</u>

LONG TERM DEBT:

5½% Secured Convertible Debentures due July 1, 1970 (subject to sinking fund) (Notes 2 and 3)	\$ 341,500	—
6% First Mortgage Sinking Fund Bonds Series A due September 1, 1974 (subject to sinking fund commencing in 1965)	3,000,000	\$ 3,000,000
5¾% First Mortgage Serial Bonds Series A due \$300,000 annually	900,000	1,200,000
	<u>\$ 4,241,500</u>	<u>\$ 4,200,000</u>
Less Serial Bonds due within one year included in current liabilities	300,000	300,000
	<u>\$ 3,941,500</u>	<u>\$ 3,900,000</u>

SHAREHOLDERS' EQUITY (Notes 3 and 4):

Capital—		
Authorized—10,000,000 shares of no par value		
Issued —7,815,566 shares	\$10,608,653	\$10,191,592
Earned surplus (per Statement)	525,280	(66,233)
	<u>\$11,133,933</u>	<u>\$10,125,359</u>

CONTINGENT LIABILITY (Note 5)

On behalf of the Board:

J. P. GALLAGHER, *Director.*D. M. WOLCOTT, *Director.*

\$15,607,653	\$14,534,220
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consolidated balance sheet and consolidated statements of income and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Provo Gas Producers Limited and its subsidiaries as at December 31, 1961 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & Co., *Chartered Accountants.*

Calgary, Alberta, March 30th, 1962.

Provo Gas Producers Limited and its wholly-owned subsidiaries

Consolidated Statement of Income

Years Ended December 31, 1961 and 1960	1961	1960
INCOME:		
Natural gas and crude oil sales	\$2,193,561	\$1,523,976
Other income	65,647	124,444
	<u>\$2,259,208</u>	<u>\$1,648,420</u>
EXPENSES:		
Operating	\$ 420,888	\$ 379,361
General and administrative	164,706	140,357
Interest expense	259,689	264,110
Exploration, engineering, dry holes and lease abandonments . .	109,145	140,934
Acreage rentals on non-producing properties	148,309	113,397
Depreciation and depletion	558,621	321,709
Amortization of financing expenses	6,337	6,659
	<u>\$1,667,695</u>	<u>\$1,366,527</u>
Net income for the year (Note 6)	<u>\$ 591,513</u>	<u>\$ 281,893</u>

Consolidated Statement of Earned Surplus

Year Ended December 31, 1961	
Balance of deficit at January 1, 1961	\$ 66,233
Net income for the year	<u>591,513</u>
Balance of earned surplus at December 31, 1961	<u>\$ 525,280</u>

Notes to Consolidated Financial Statements December 31, 1961

1. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Basco Petroleum Ltd., Provo Gas (Sask) Limited and Western Naco Petroleum Limited, the latter company having been acquired during 1961 (See Note 3). The net excess of the cost of shares of subsidiaries over their net book value at dates of acquisition is included in property, plant and equipment.

2. 5½% Secured Convertible Debentures

The Deed of Trust and Mortgage securing the 5½% Secured Convertible Debentures, issued by Western Naco Petroleum Limited, provides that debentures which have been redeemed or converted may be applied in satisfaction of sinking fund instalments. Up to December 31, 1961 debentures had been redeemed or converted in excess of sinking fund instalments by \$205,571, of which \$26,758 will be used for the sinking fund instalment due July 31, 1962.

3. Capital

During the year the Company issued 181,331 shares of its capital stock valued at \$2.30 per share (quoted market value at date of issue) in exchange for all of the outstanding shares of Western Naco Petroleum Limited.

At December 31, 1961 there was an option outstanding to Dome Petroleum Limited, under the terms of a management contract, to purchase 219,000 shares of the Company's capital stock at \$2.20 per share at any time while the management con-

tract remains in force. In addition, 22,780 shares were reserved for the conversion of the outstanding 5½% Secured Convertible Debentures (see Note 2) exercisable until December 31, 1962 on the basis of 6 2/3 shares for each \$100 debenture outstanding.

4. Dividends

The deed of trust securing the Company's long term debt provides that, so long as any of such debt is outstanding, dividends may be paid by the Company to the extent of 70% of consolidated net earnings accumulated since January 1, 1959.

5. Contingent liability

The Company has jointly and severally agreed with Dome Petroleum Limited that in the event Steelman Gas Limited, an affiliate, is unable to retire its then outstanding 6% First Mortgage Bonds on February 1, 1970, it will pay any deficiency required to retire such bonds to the extent of interest paid by Steelman on its 6% Debentures Series A under certain prescribed circumstances.

6. Income taxes

It is the practice of the companies to capitalize, as part of the cost of properties, drilling and development expenditures of producing wells which are being amortized on a unit of production basis. Such expenditures are deductible for income tax purposes and as a result no provision for income taxes is required for the year ended December 31, 1961.

Statistical Review

FINANCIAL	<u>1961</u>	1960	<u>1959</u>	<u>1958</u>	<u>1957</u>
Gross income (before royalties)	\$ 2,555,540	\$ 1,904,320	\$ 1,486,874	\$ 923,293	\$ 203,778
Operating income	1,673,614	1,128,702	835,354	456,278	21,083
General and administrative expenses	164,706	140,357	126,184	97,954	90,605
Exploration and dry hole costs	109,145	140,934	129,810	154,098	151,647
Rentals on non-producing properties	148,309	113,397	118,439	64,155	114,479
Net income (loss)	591,513	281,893	151,241	(102,865)	(398,467)
Working capital (deficit)	1,323,690	1,451,960	1,693,674	2,320,191	(965,297)
Long-term debt	3,941,500	3,900,000	4,200,000	—	—
Property, plant and equipment (cost less depreciation)	12,435,473	11,267,381	11,028,786	7,883,126	7,574,787
Accumulated depreciation and depletion	1,259,853	793,078	472,171	373,582	140,985
Investments (at cost)	1,158,195	1,141,035	1,141,035	1,075,000	28

OPERATING

Gas production (billion cubic feet)	16.33	12.41	11.60	8.40	1.38
Oil & condensate production (net barrels)	294,813	162,496	92,714	38,618	21,705
Proven gas reserves (billion cubic feet)	575	586	596	567	575
Wells drilled	19	35	8	9	19
Net gas wells	49.1	44.3	41.8	38.5	33.2
Net oil wells	46.1	26.8	21.2	9.4	5.5
Acreage—gross	3,043,980	1,228,284	1,209,675	984,867	773,396
Acreage—net	988,273	464,775	439,655	492,294	468,892

MAP No. 1



★ Tommy Lakes

26 25% WORKING INT.
74,974 ACRES

25% CARRIED INT.
48,683 ACRES

W LAPRISE

E LAPRISE

★ Silver

JEDNEY

LAPRISE

3.5% CARRIED INT.
24,609 ACRES

★ Worgen

N BEG

BUBBLES

33.33% WORKING INT.

33.33% WORKING INT.

4.5% CARRIED INT.
24,355 ACRES

33.33% WORKING INT.

5% GROSS ROYALTY
18,108 ACRES

3.5% CARRIED INT.
50,249 ACRES

3.5% CARRIED INT.
39,224 ACRES

Highway

Gundy

Buick Crk.

Blueberry

Kobes Townsend

Halfway

Montney

Pickell Crk.

Beaton R.

Milligan Crk.

Wildmint

PEEJAY

NORTH EAST

BRITISH COLUMBIA



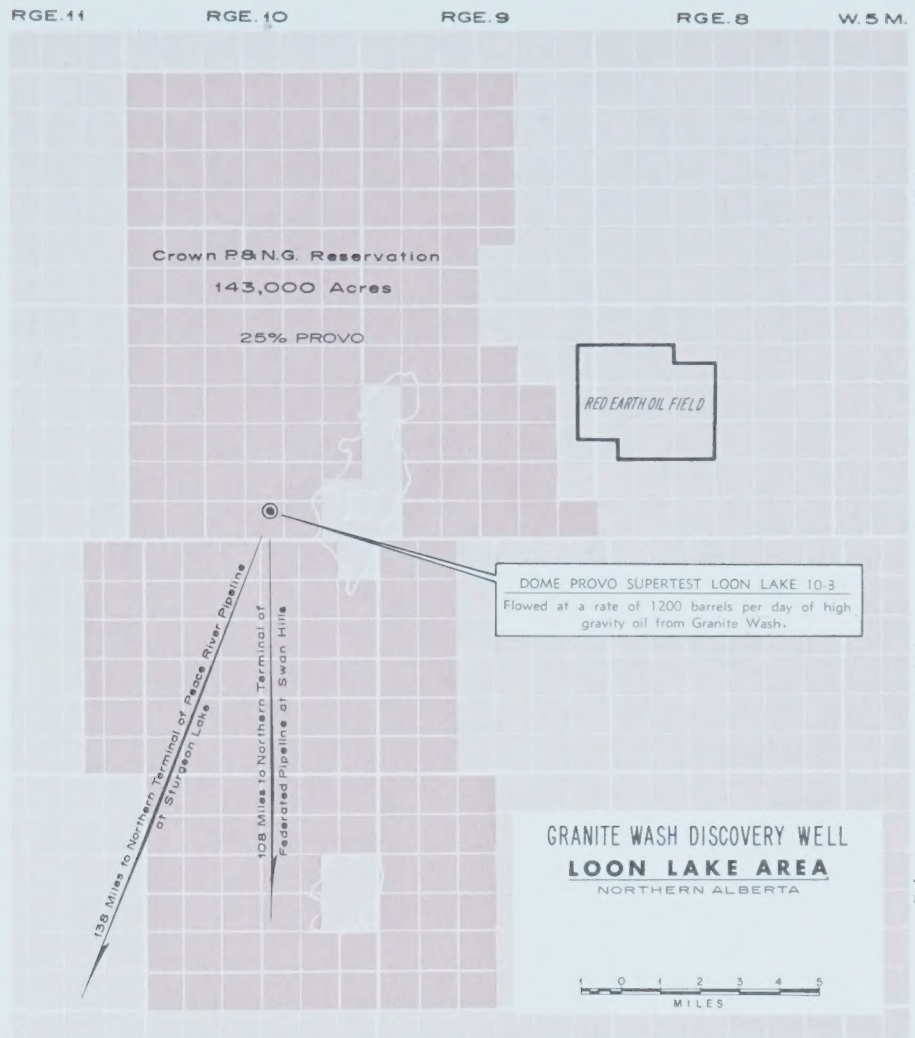
Provo Crown P&N.G. Lease—
Provo Crown P&N.G. Permit—

○ PROPOSED LOCATION OF
DRILLING WELL
● OIL WELL ★ GAS WELL

— OIL PIPELINE — GAS PIPELINE
- - - OIL PIPELINE (Proposed) - - - GAS PIPELINE (Proposed)

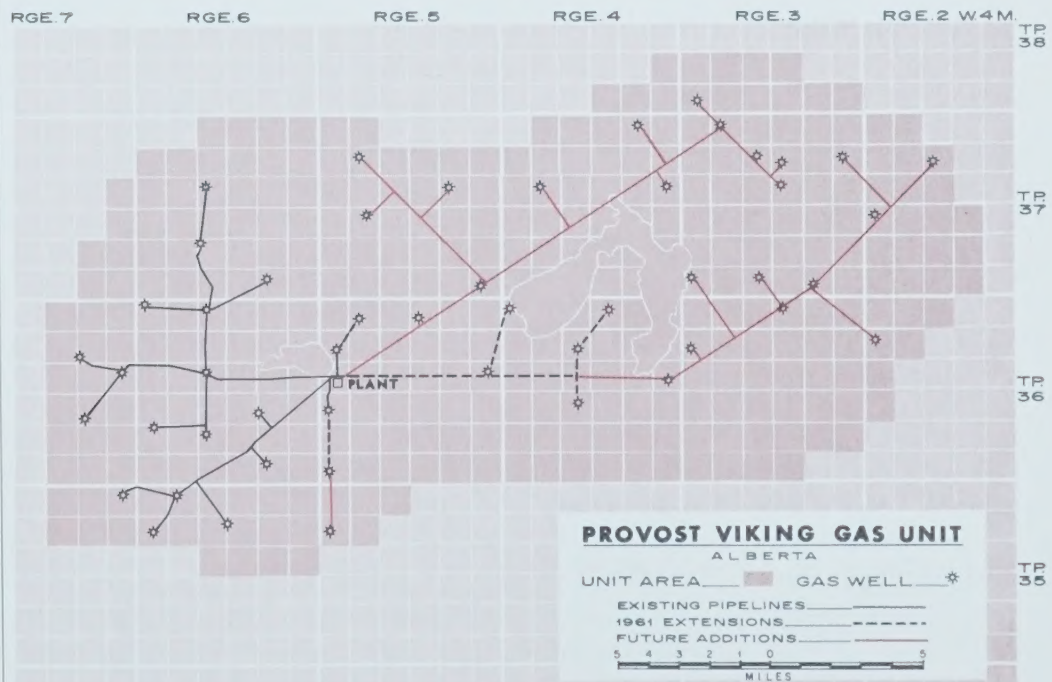


★ Paddy



MAP No. 2

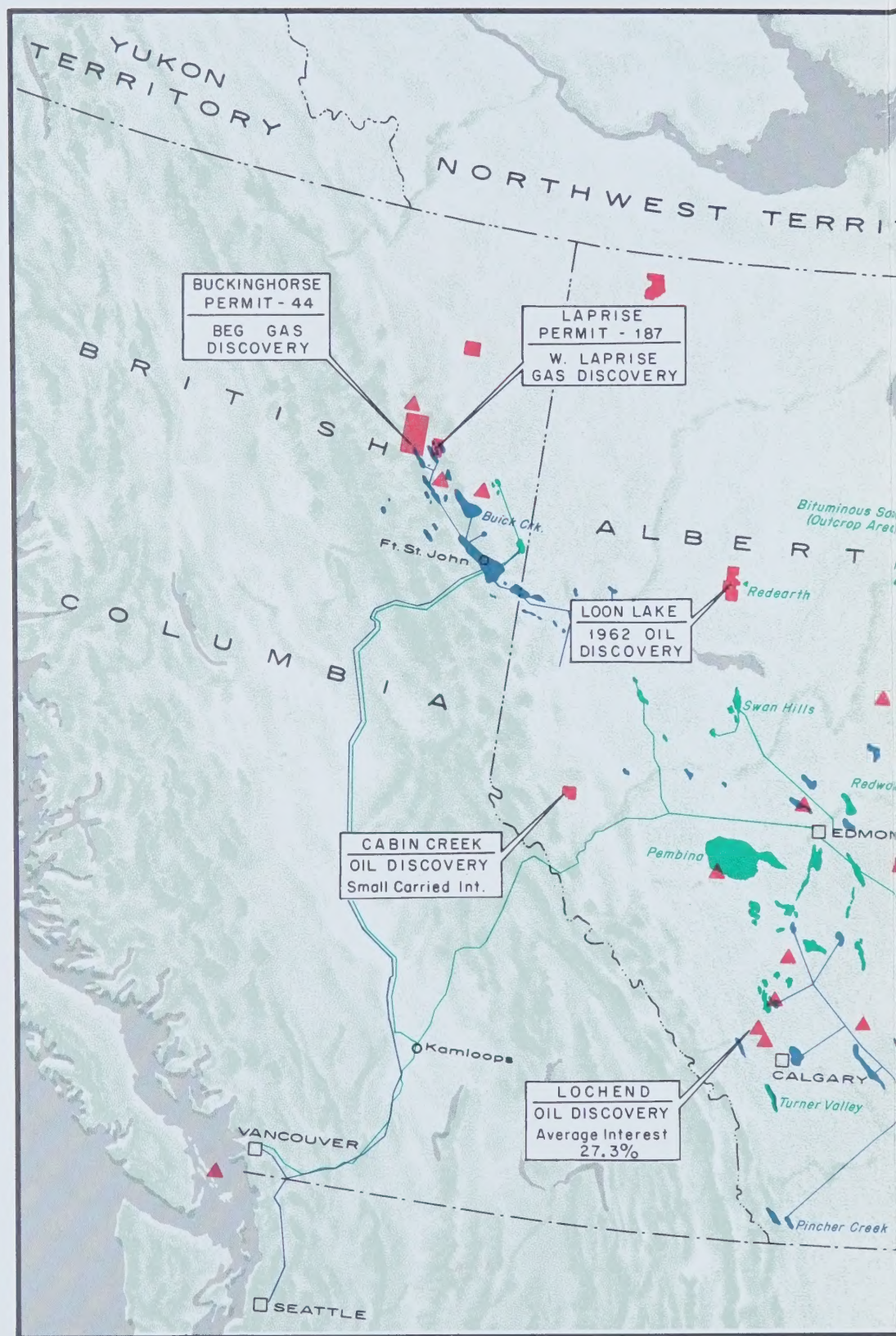
WESTERN CANADA
AND
ARCTIC ISLANDS
MAPS



MAP No. 3

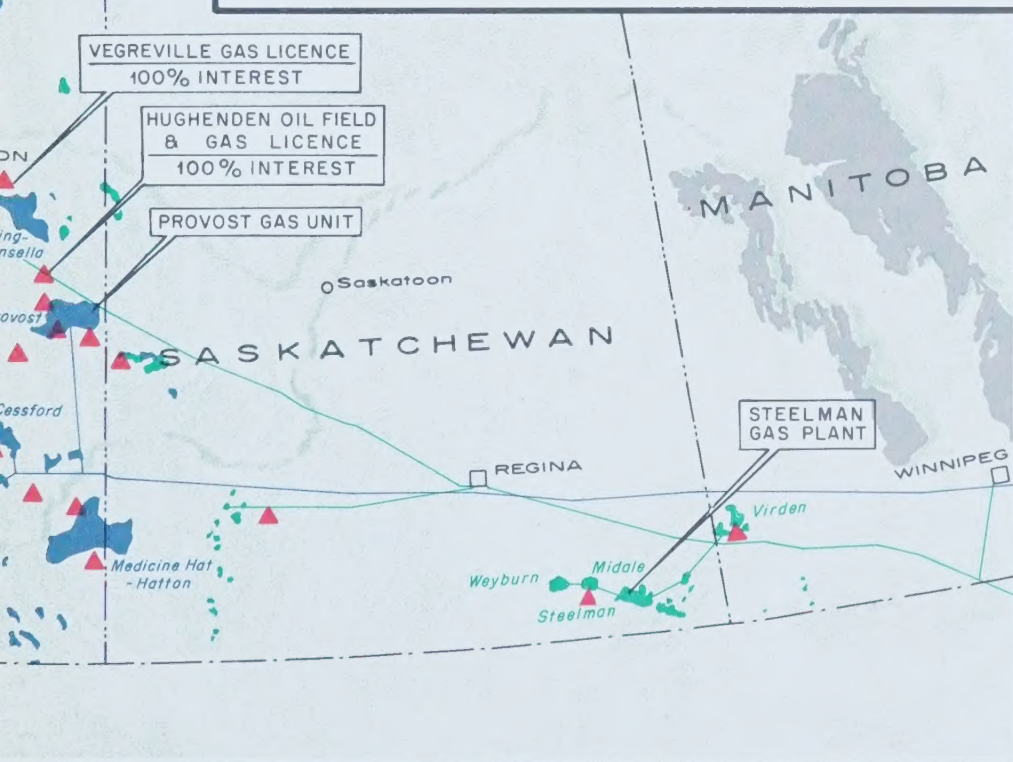


WESTERN CANADA
AND
ARCTIC ISLANDS
MAPS



PROVO ACREAGE HOLDINGS IN **WESTERN CANADA**

100 50 0 100 200
MILES



LEGEND

- PERMITS ————
- AREAS OF LEASE INTEREST ————
- OIL FIELDS ————
- OIL PIPELINES ————
- OIL PIPELINE (Proposed) ————
- GAS FIELDS ————
- GAS PIPELINES ————



